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SIPDIS

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E.O. 12958: N/A
TAGS: EFIN ECON ELAB ETRD ALOWAR
SUBJECT: JANUARY 2006 INFLATION UPDATE AND PREDICTIONS

REF: BUENOS AIRES 3020

SUMMARY

¶1. The Consumer Price Index (CPI) rose 1.3 percent in January. This brings the 12-month inflation rate to 12.1 percent. Average nominal salaries increased 1.2 percent in December and the purchasing power of salaried workers in December 2005 was 7.1 percent higher than in December 2004. Official surveys put the percentage of people living below the poverty line at 38.5 percent in the first half of 2005, down from 40.2 percent in the previous semester. The percentage of people living below the destitution level dropped to 13.6 percent during the first half of 2005, down from 15.0 percent in the previous semester. However, the peso value of the poverty line and the destitution line grew 1.4 percent and 1.0 respectively, in January. According to the Central Bank's survey of market expectations, whose methodology changed recently, CPI inflation is expected to be 1.0 percent in February, and 12.8 percent in 2006. End Summary.

THE CONSUMER PRICE INDEX

¶2. The official Consumer Price Index (CPI) was 1.3 percent higher in January 2006 than in December 2005, slightly above the Central Bank's (BCRA) consensus forecast of 1.2 percent. January inflation brought 12-month inflation to 12.1 percent. Prices of Goods increased 0.3 percent and Prices of Services increased 2.8 percent in January. Prices of goods that change depending on the season increased a monthly 6.3 percent, regulated prices increased 0.6 percent and the rest, which constitutes "core inflation,"

increased 0.7 percent in January. Core inflation was 13.8 percent between January 2005 and January 2006. The official CPI measures inflation only in the Greater Buenos Aires urban area.

¶3. Entertainment was the CPI component with the highest monthly price rise in January, 7.2 percent, followed by Medical and Health Care Services that increased 1.8 percent. The rise of Entertainment prices is explained by the beginning of the holiday season. Food and Beverages, and Education were the two CPI components that increased the most between January 2005 and January 2006, both posting a 15.9 percent increase. They were followed by Housing and Basic Services, which rose 13.3 percent.

TABLE I
CONSUMER PRICE INDEX (1999=100)

YEAR	CPI PCT CHG PREV YR	CORE INFLATION PCT CH PREV YR
2001	-1.5	n.a.
2002	41.0	n.a.
2003	3.7	n.a.
2004	6.1	6.4
2005	12.3	14.2

	CPI PCT CHG PREV MO	CORE INFLATION PCT CH PREV MO
2005		
JAN	1.5	1.1
FEB	1.0	1.3
MAR	1.5	2.2
APR	0.5	0.8
MAY	0.6	0.6
JUN	0.9	1.1
JUL	1.0	1.0
AUG	0.4	0.9
SEP	1.2	0.9
OCT	0.8	0.7
NOV	1.2	1.4
DEC	1.1	1.4
2006		
JAN	1.3	0.7

Source: National Bureau of Statistics and Census (INDEC).

POVERTY AND DESTITUTION LEVELS

¶4. INDEC publishes a monthly estimate of the value of a "total consumption basket" and a "food consumption basket." These baskets are based on estimates of the minimum nutritional requirements and other consumption habits of people of different ages. These estimates determine the official poverty line and the official destitution line, respectively. For a family of four in January, the poverty line was ARP 843.60 (USD 277) and the destitution line was ARP 388.75 (USD 128). A family of four is defined as a man and a woman in their thirties, an eight-year-old girl and a five-year-old boy.

¶5. The peso value of the poverty line grew 1.4 percent in January, and rose 13.2 percent in the January 2005 - January 2006 period. The peso value of the destitution line increased 1.0 percent in January, and rose 15.8 percent in the January 2005-January 2006 period.

¶6. The percentage of people living below the poverty line was 38.5 percent in the 28 most important urban areas of Argentina in the first half of 2005. The

percentage of the poor was 40.2 in the second half of 2004, and 44.3 percent in the first half of 2004. The percentage of people living below the destitution line was 13.6 percent in the 28 most important urban areas in the first half of 2005. The percentage of the destitute was 15.0 in the second half of 2004, and 17.0 percent in the first half of 2004. Some analysts believe that the percentage of people living below the poverty and destitution lines increased during the second half of 2005 because the peso value of the poverty and destitution lines rose faster than the growth of informal private sector salaries, where most of the poor and destitute are employed, if they are employed. The peso value of the poverty and destitution lines grew 6.8 and 8.8 percent, respectively, in the June-December 2005 period, while informal private sector salaries grew 5.8 percent.

AVERAGE NOMINAL SALARIES

¶7. INDEC estimated that average nominal salaries increased 1.2 percent in December 2005 over November ¶2005. Inflation was 1.1 percent during that period. The average nominal salary increase in December was due to increases of 1.6 and 1.5 percent in formal and informal private sector salaries, respectively, while public sector salaries did not change. Public sector salaries mentioned here include salaries of federal and provincial employees.

¶8. Average nominal salaries grew by 20.3 percent during 2005. This growth was due to increases of 26.0, 12.6 and 12.9 percent in formal private sector, informal private sector and public sector salaries, respectively. Inflation in the same period was 12.3 percent. Therefore, the purchasing power of the average salaried worker in December 2005 was on average 7.1 percent higher than it was in December ¶2004. However, it was only formal private sector workers who posted a significant gain in real salaries.

WHOLESALE PRICE INDEXES

¶9. The Wholesale Price Index (IPIM) increased 1.3 percent during January 2006, bringing the total IPIM increase since January 2005 to 13.1 percent. This index measures the price changes of national products (including Primary Products and Manufactured Goods and Electric Power) and imports sold in the domestic market. The IPIM also includes taxes. The 1.3 percent increase in January was due to a 4.4 percent increase in Primary Product prices and a 0.2 percent increase in Manufactured Goods. The increase in Primary Products is chiefly explained by a 7.0 percent increase in Oil and Gas prices. Electric Power prices decreased 0.7 percent. Import prices increased 0.7 percent.

¶10. The Wholesale Basic Prices Index (IPIB) has the same coverage as the IPIM, except that it excludes taxes. The IPIB increased 1.3 percent in January, bringing the total IPIB increase since January 2005 to 13.7 percent. The 1.3 percent increase in January was due to a 4.4 percent increase in Primary Product prices and a 0.2 percent increase in Manufactured Goods. Electric Power prices decreased 0.7 percent. Import prices increased 0.7 percent.

¶11. The prices for the sectors measured in the IPIM and IPIB are weighted using the corresponding value of product net of exports. INDEC has devised another index, the Basic Prices to Producers Index (IPP), whose weights are calculated considering sales in the

internal market as much as sales to the external market and excluding imports and taxes. The IPP increased 1.1 percent in January 2006, bringing the total IPP increase since January 2005 to 14.3 percent. Primary Products increased 4.7 percent and Manufactured Goods decreased 0.2 percent. Electric Power prices decreased 0.7 percent.

CONSTRUCTION COSTS

¶12. The INDEC index measuring private housing construction costs in Greater Buenos Aires increased 0.8 percent in January 2006. These costs were 17.0 percent higher than in January 2005. The January increase is the result of a 1.1 percent increase in materials, 0.6 percent rise in labor costs, and a 0.1 percent decrease in other construction costs. Wages of salaried employees working for the sector increased 0.4 percent and payments to the self-employed grew 1.1 percent. Professional fees are not included among the labor costs considered by INDEC in the construction sector.

BCRA'S SURVEY OF MARKET EXPECTATIONS

¶13. The BCRA discontinued its bi-weekly survey of market expectations in December 2005 and announced a change in methodology to make the survey also include forecasts from "large firms with economic analysis units". The new survey will be published monthly. Before the methodology change, the BCRA survey averaged the forecasts from approximately 54 local and international analysts, mainly banks, university economic departments and think-tanks. Upon continuation of the survey in February, the BCRA has not made public the large firms that are now contributing to the survey.

¶14. The general view, is that the BCRA survey has lost reliability after the change in methodology. Most large firms in Argentina are negotiating with the GOA in different fields: large utilities are renegotiating tariffs and concession contracts, and most of the remaining large firms are negotiating price-fixing agreements as a way to control inflation. President Kirchner showed dissatisfaction with those whose economic predictions differed from the GOA's in the recent past. He also suggested that those predicting high inflation rates are in fact creating inflation (see reftel). This attitude toward those who make negative predictions has influenced some local analysts, and could encourage some large firms to withhold their true forecasts, to avoid having a negative impact on their relationship with the GOA.

INFLATION PREDICTIONS FOR 2006

¶15. The GOA's national budget includes a 9.1 percent forecast for 2006. The BCRA monetary program for 2006 announced on December 29, 2005, established an inflation target of between 8-11 percent for 2006. According to the BCRA's last survey of market expectations published on February 8, 2006, CPI inflation is expected to be 1.0 percent in February, and 12.8 percent in 2006.

¶16. To see more Buenos Aires reporting, visit our classified website at:
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